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18 March 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

By Hand

Ms. Magalie Roman Salas
Secretary, Federal Communications Commission
Mail Stop Code 1170
1919 M Street, N.W.
Washington, DC 20554

Re: *Ex Parte Presentation Memorandum - CC Docket No. 96-45 (Report to Congress)*

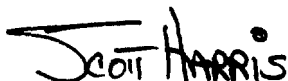
Dear Ms. Salas:

Please be advised that on 16 March 1998, the undersigned spoke briefly with Paul Misener of Commissioner's Furchtgott-Roth's office, and Ari Fitzgerald, Susan Fox, and John Nakahata of Chairman Kennard's office regarding the above-captioned matter. On 17 March, I provided the attached article to Mr. Misener and Mr. Nakahata.

During my discussions with the FCC staff members noted above, I indicated that reclassifying Internet telephony as a basic service was not required by law and would not add significantly to the Universal Service Fund. Moreover, I indicated that such a classification would subject Internet telephony to the international settlements process, severely restricting the Commission's ability to halt the \$5 billion annual subsidy paid by U.S. consumers to foreign monopolists. Finally, I indicated such a reclassification would also severely hamper the ability of U.S. carriers to compete in foreign markets and undermine equipment manufacturers that would build infrastructure for new U.S. Internet telephony competitors overseas.

Copies of this memo are being provided to your office and to each of the FCC staff members noted above.

Sincerely yours,



Scott Blake Harris

Attachment

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just because the US thinks it has found an approximate cost model for its own industry, that does not mean the same model should be applied to everyone else.

"If a country's costs are 9 to 10 cents, it's right to move to cost," said John Prince, permanent secretary, Trinidad and Tobago, "But if a country's costs are 30 cents, its not right to move them onto a 9 cent tariff."

Private and public telecoms operators have been so successful at bypassing that system by refiling traffic through cheaper third countries or by using callback technologies which record calls as originating in a cheaper tariff zone, that many analysts say it is time to abandon the system altogether.

Analysts say that developing countries, which have resisted reductions in settlement rates because they produce important revenues for their domestic network buildout, have more to lose by remaining in the system than in moving to a commercial pricing system.

"Developing countries say they will lose millions of dollars in revenues, but they are already losing far more," said Cathleen Woodall, director of marketing at MJ Scheele & Associates, Campbell, California, and an advisor to the US delegation, "The real problem is they do not know just how much they are losing."

Woodall estimates that 7.3 billion minutes of international telecoms traffic was refiled in 1997, and that barring a major revision of pricing arrangements to remove the incentive to redirect traffic, refile volume will double to about 15 billion minutes by 2000. That traffic, and the settlement revenues attaching to it, is completely lost to national operators.

US delegates say they hope there is no shooting, and hope that a compromise can be reached which will see international pricing move towards negotiated rates.

A series of country case studies commissioned by the ITU and presented at today's information session gives plenty of ammunition to critics of the FCC's benchmarks plan. The studies show that individual countries just don't fit models of market theory that drive US plans for global telecoms prices.

Following presentations for Senegal and Mauritania, Francois Jover, director of Ingenieurs Conseil Economistes Associes (ICEA) concluded that reductions in international accounting rates could not be isolated from other factors like the availability of loans for further development of infrastructure.

Overall, said Jover, there was nothing to make these countries comparable even to near neighbours.

"The way they manage the reduction in accounting rates will probably differ from other countries in the region."

"The studies show there are big differences in costs in different countries," said session chairman Bernard Rouxville, senior adviser at the French ministry of economy and finance, "They also show that international settlement revenue are different between countries, so that reductions will have different effects....It is up to each country to decide how things can be developed in the best way."

Not only that, but research in countries like Sri Lanka, which has started to liberalize ahead of the rest of the developing world, indicates that the benefits of liberalization might not sweep in at the same rate everywhere.

Despite a program of cost reduction which includes licensing competitive wireless local loop operators and committing to a tariffs rebalancing program, the country has not seen any of the promised increase in revenues which these measures were

"It takes time to build a system that can generate revenues," said Milne. "Growth in international telecomsneeds to be supported by the roll out of a domestic network."

US delegates say they still hope a move to refer international accounting rates to a new pricing decisions body, called the inter-session committee, will bring peace.

The inter-sessional committee will be asked to produce a proposal for a new international accounting rate by October.

Europe's Premier Event for Telcos and ISPs

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